RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Nov. 13, 1991 **LETTER 1082**

IT'S BECOMING CLEAR THAT: (1) Bush is beat-able, and that he's beginning to panic, (2) The "recession" isn't going away, and the Fed is panicking (they dropped the discount rate in the middle of a Treasury financing), (3) Interest rates aren't the real problem, but they're all the Fed has to offer, (4) Deficits do count -- if this nation's deficits weren't sky-high and going higher, Washington could (and would) lower taxes and initiate new spending programs, (5) The key to the whole economic picture could well be real estate, and real estate (particularly commercial) is a gathering disaster, and (6) The key state in the whole picture is California, and the Golden State is in baaaad shape (watch the California bond ratings).

THE MARKET: Really, no significant changes in the Averages since the last Letter. The important highs for the Averages are shown on the page 1 chart. So far in 1991, the Averages have simply been holding in slightly widening trading ranges.

The explosion in the stocks of assorted bio-tech and small-cap companies (including initial offerings) tells me that speculation (c'mon, let's call it gambling) is rife in today's market. Many of the bio-tech companies now flying high have no earnings and will not show profits for years. It's a shake of the dice -- ah, shades of 1968.

My **PTI** (page 2 chart) recorded its high on October 18. Since then it's backed off a bit, but it's still graded bullish, as it has been ever since January 31.

THE PICTURE: What's the rationale behind today's high-level stock market? As I see it, the rationale is as follows -- *"The economy has always recovered from recessions, and this time will be no different. It isn't a question of whether the economy will recover, it's merely a question of (1) when it will recover, and (2) how strong the recovery will be? The Fed, by lowering interest rates 17 times, has laid the groundwork for the next economic expansion. And the stock market is simply positioning itself for the upturn. The market is in no hurry. Whether the expansion arrives in early-1992 or late-1992 or even in 1993 makes little difference to Wall Street. The main thing is that the economy has seen its lows and somewhere ahead lie better times. Count on it.*

"Furthermore, with low interest rates and time on its side, America's corporations are de-leveraging and re-liquifying. And they are (via lay-offs and restructuring) becoming lean and mean. Therefore, when the economy finally turns decisively higher, profits should expand dramatically."

Will it all work out that way? Has the stock market "got it right"? Well, hopefully it does. But there are a few nagging problems, and one of them is the problem of *values*. Let me explain -- the stock market, now selling at levels of extreme overvaluation, may have already discounted the best that lies ahead. After all, the Dow is now priced at an astronomical 30 times earnings, it yields a minuscule 3% and it's selling at a fat 2.3 times book value. Let's face it, at these levels the market has aldready discounted one heck of a lot of good news. In fact, at today's sky-high valuations, the stock market has already discounted a forthcoming boom.

Meanwhile, a strange psychology has enveloped the nation. At the same time that eager buyers have priced stocks into the stratosphere, sentiment regarding the economy is in the dumps.

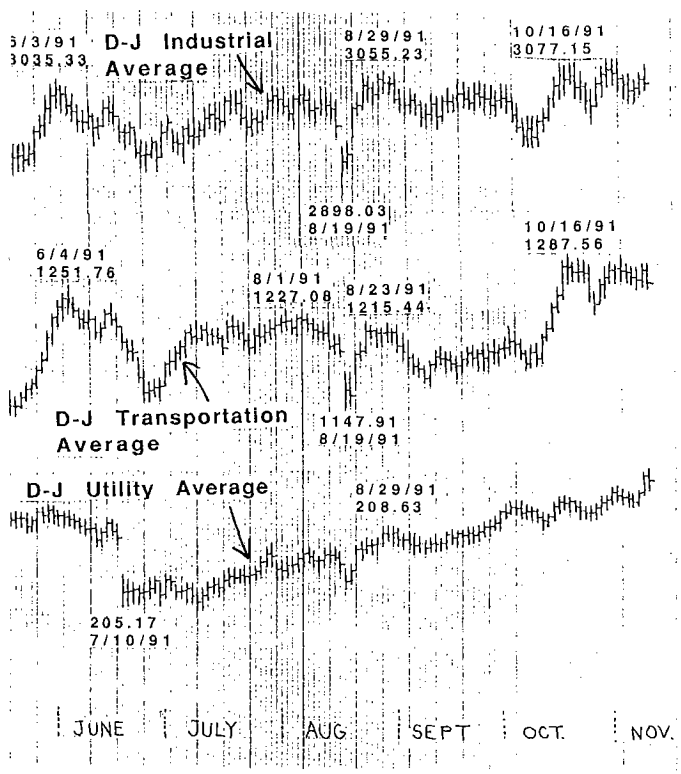
Nov. 1 DJIA 3055.90; PTI 3412; A-D Ratio -10.40
Nov. 8 DJIA 3045.61; PTI 3413; A-D Ratio -10.21
Dow Yield: 3.05%; Dow P/E: 30.0; DowPow: 88
Dow 200-day MA: 2958; Dow 30-day MA: 3029
Dow Times Book Value: 2.28; PTI 89-day MA: 3367
Percentage of Undervalued Blue-chips: 12%

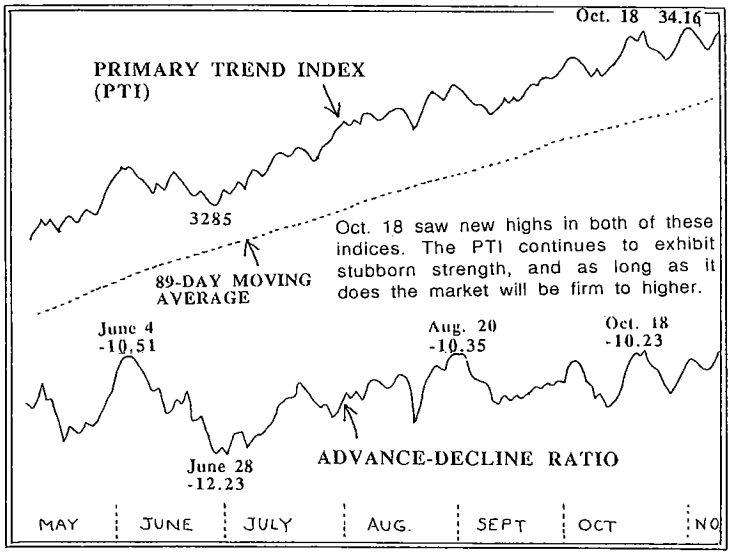
The October Conference Board figures show the Consumer Confidence Index slumping to 60.4 (80 or below is considered recessionary or a sign of very weak growth).

I find myself wondering if today's gambling mania hasn't rubbed off on the stock market or vice versa (see Notes & Quotes on gambling). Are Americans, who are suffering economically, simply jumping willy-nilly into stocks (or playing craps or buying lottery tickets) -- in a frantic effort to keep up their living standards? Is this what people are thinking, "I'm not making it on my salary so I might as well try for that big lottery ticket in the sky, or maybe that bio-tech stock I just bought will go from 10 to 50"?

Frankly, I can't remember seeing anything exactly like today's manic sentiment-split between the market and the economy. Back in 1957 the nation sank into a vicious recession, and public sentiment turned black. In fact, I've never, before or since, seen sentiment as pessimistic as that which prevailed in 1957. The stock market (which was priced at bargain levels) turned up in October 1957 and continued persistently higher, thereby forecasting a coming boom (which actually did materialize during 1958 to 1960).

But debt was low in '57, stocks were cheap, and public sentiment was extremely bearish towards the stock market. Today, debts are sky-high, stocks are expensive, and the sentiment towards the stock market is optimistic.



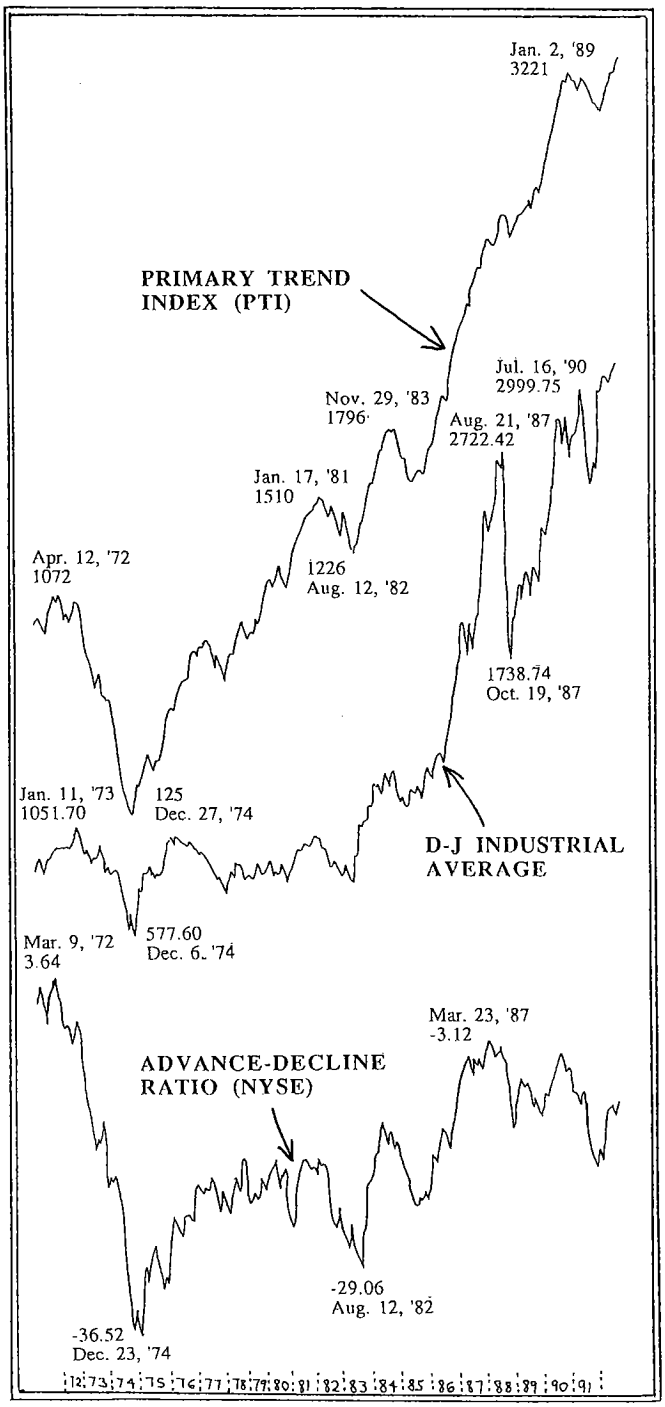


The situation here in 1991 is as puzzling as it is fascinating. In an effort to gain some insights into the situation, I turned last week to my old friend and mentor (long dead), George Schaefer. Schaefer was a great Dow Theorist who published his advisory (*Dow Theory Trader*) from 1948 through 1974. Schaefer had the finest "feel" for the primary trend of the market of anyone I have ever dealt with or read about. Here are a few interesting (and perhaps timely) quotes from George Schaefer's reports:

"The market philosophy of Charles H. Dow is one based primarily on values. All of his writings stressed the concept of buying stocks only when values were there. When great values exist in the majority of stocks, large investment sources are attracted by these values and begin to buy. In this way, great bull markets are born. As this buying takes place during the early stages of bull markets, other investors begin to notice that stocks are refusing to go down, even though the news is bad and the psychology of the masses is bearish. So this new crop of investors begins to buy, and the ball starts rolling -- slowly and cautiously at first. But later with greater confidence, a larger number of investors begin to buy. In this way, the bull market feeds on itself, until finally all the services and the crowd become rampantly bullish. In the final stages of most great bull markets the average yield for the 30 industrials has always approached the 3.5% level. Now it is 6%. Or a long way from anything that resembles a customary top (Written October 13, 1951).

"The Dow Theory is not a theory in the true sense of the word, but rather a set of principles and observations for traders and investors to follow. The most important of all these, and the one that Charles H. Dow stressed most in his writings, is his concept of values. Again and again Dow made values his prime consideration in the buying of stocks. He advocated buying stocks when their values were great and selling them when values were small and unattractive. This concept is entirely different from that stressed by later writers on Dow Theory. The trend of later writers has been away from Dow's most important consideration of values, to a less important consideration, which is the pattern of the averages. Dow seldom mentioned the pattern of the averages, yet most Dow Theorists today seem to think that the plotting of the dual averages is the prime consideration. Nothing could be further from the truth. Anyone who has made a study of Dow's editorials knows that the buying of good values (which is characteristic of investment buying) and the selling of poor values (which usually comes at a time when the public is doing its heaviest buying) is the essence of Dow Theory. Any deviation from this important and most fundamental of all concepts is apt to lead Dow Theorists into serious trouble." (Written February 17, 1951).

The above comments by Schaefer are testaments to the Dow Theory and value-investing. Of course, the argument can be made today that many secondary stocks still offer good value. But Schaefer was adamant in stating that large investors, knowledgeable investors, the kind of investors who buy (and sell) the Dow-type stocks, are the ones who set the course of the primary trend. Thus, Schaefer always stressed the importance of the valuation of the Dow. As I've noted in recent Letters, the Dow valuation is now in "never-never land."



PRIMARY TREND INDEX (PTI): Is this possible? Can all our studying, all our reading, all our pondering and puzzling over the market be reduced simply to the action of a single index? Maybe. And if it is possible, then that single line is the Primary Trend Index.

The PTI is an indicator which I developed about 25 years ago. It is made up of eight "action of the market" indicators, and by its construction it reflects the technical undercurrent of the market. The PTI is not affected by cycles of periodicity, by sentiment, by contrary opinion or any other kind of opinion or emotion. The PTI reflects strictly the undertone action of the market.

When the day-after-day action of the PTI is charted, the evolving pattern tells a story. That story is seen in this long-term chart (see above), a chart which I've never published before.

I've had many requests over recent years for a complete history of the PTI. The only way I could place the entire 20 history of the PTI on a single page is via a monthly chart. The page 2 chart shows the Dow, the PTI and the advance-decline ratio going back to 1971. A study of this chart will prove instructive.

It is immediately apparent to me that the entire rise in the PTI is part of one continuing bull market, a bull market that began in December 1974. In fact, if you connect the PTI bottoms of 1974 and 1982 you can see that a single rising trendline easily contains all the PTI action of the last 17 years.

Furthermore, judging by the pattern of the PTI it is apparent that the bull market is still intact. But so strong and so insistent has been the rise in the PTI that I have received numerous letters from subscribers wanting to know if the PTI doesn't have a bullish bias built into it.

Fortunately, I have the record of the PTI going back to 1971, and this includes the period of 1973-74. The 1973-74 period witnessed the worst bear market since the 1930s. It saw the Dow lose almost half its value, and it saw the advance-decline ratio (a proxy for the majority of issues on the NYSE) go into its worst collapse since the 1937-42 era (see A-D ratio at bottom of the chart).

So it's clear to me that the PTI does not have a bullish bias. When a bear market arrives, the activity will most definitely show in the action of the PTI. In fact, from the PTI peak of 1072 recorded on April 12, 1972, the bear market took the PTI to an extreme low of 125 recorded on December 27, 1974. That represented a total, horrendous drop of 947 PTI points.

In December 1974 the PTI bottomed out, and the great bull market began. From its 1974 low, the PTI has risen to the current 3390s, a total rise of over 3,265 points. This is an incredible advance -- surely one of the most persistent and profitable in the history of the stock market.

But this advance has been going on for 17 years. Therefore, both the time element and the extent of the rise suggest that we could be nearing the end of this amazing bull market. Furthermore, stock valuations (which I have discussed in Letter after Letter) suggest that the market is nearing or actually in the area of tops.

So we have two considerations here. The first is that the PTI is still bullish and still climbing. And where it will finally stop neither I nor anyone else can possibly know. The second consideration is that the bull market is ancient, it has come a long, long way, and the values are now dangerously thin.

Note that since March 1987 the advance-decline ratio has been diverging with the PTI. The A-D ratio has been in a declining trend while the PTI has continued to push into new high ground. How do we explain this, and what does it mean?

First, the A-D ratio does have a bearish bias over any extended period of time. However, note that the A-D ratio rallied strongly from its 1974 low to its 1987 high. This implied very powerful and broad strength in the majority of stocks on the NYSE. From the 1987 peak to the present the A-D action is telling us that upside action was much spottier, and that the action has been less impressive than say the period of 1982 to 1987.

Nevertheless, the PTI action shows that despite a declining trend in the A-D ratio, the underlying current of the market remains bullish.

What of the current situation? Currently, stocks (certainly the blue chip stocks) are overvalued, the bull market is long in the tooth, and the A-D ratio action is not what it was. Yet, the PTI continues to climb into new high ground.

So what is the investor to do? In this late stage, there's no perfect answer -- "You pays your money and you takes your chances." Those investing strictly on the basis of the trend of the PTI will be tempted to hold their shares until the PTI turns decisively down. Those who invest on the basis of Dow Theory and values would have to be extremely careful in this area and be largely out of stocks.

My own personal inclination is to be very cautious. For my kids and myself I have been holding just a limited number of closed-end funds (TY, SBF, GAM, ZF, ZTR), and I will sell these when the PTI shows signs of stalling out or turning bearish.

Comment: The Oct. 28 issue of *Forbes* magazine contains an interesting article by two professors from the University of North Texas. They note that the market moves very sporadically. The professors examined the monthly returns for the S&P 500 for the entire period from 1926 to 1987. Here's what they found. They discovered that if the 50 best upside months were removed (and those 50 months consumed only 6.7% of the time), the net return to the investor for the entire 62 years would be zero. Amazing.

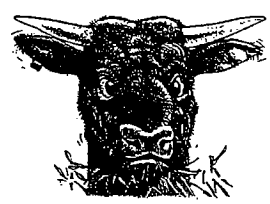
The professors conclude that it is next to impossible to guess or predict which month will be the good one -- therefore, one should be in the stock market all the time, through good times and bad. The danger, they believe, is being out of the market rather than in it.

I note, however, that the professors' studies cover a period when the stock market rose to successive record high after record high. But will this always be the case? Secondly, I have to ask -- who could hold a full portfolio through the 1929-32 period or the 1937-42 period or the 1972-74 period -- hoping that new highs would arrive in due time? I couldn't. Who could sit and watch his portfolio drop 60% to 90%, hoping that in due time his stocks would come back and the market would advance to new highs?

The reason I am including these comments is that I want people to consider the "hold 'em forever" policy in view of the monthly chart of the PTI. If and when the next primary bear market hits, it will hit with my PTI having climbed almost 3300 points on the upside. Suppose we get a full correction of that move (and remember, all market moves are ultimately corrected). A full correction of the 1974-91 rise in the PTI could give us a bear market you wouldn't believe.

No, I disagree with the professors. With the Dow selling at 29 times earnings, at 2.3 times book value and yielding 3%, I am not willing to sit through the next bear market. I'll leave that to the professors.

INVESTMENT POSITION: A wealthy subscriber told me recently, "I just look at the box to see whether the bull's still there. Then I check the position of the PTI. If the bull's there and the PTI is still moving up, frankly that's all I care about. I like the Notes & Quotes too."



And that's fine with me. Maybe I wish I could be as nonchalant about the picture as this subscriber. But no, I'm a worrier, and a ponderer, or maybe I just read too many newspapers and stare at too many charts.

At any rate, a strange dichotomy exists in this market, and for readers of *Dow Theory Letters*, investing at this point boils down to a matter of choice. My Primary Trend Index continues in its bullish mode, no question about it. At the same time, valuation considerations tell me that this is a highly dangerous market. The Fed is fighting the recession tooth and nail, and certainly a combined 17 cuts in the Fed Funds and the discount rate have gone a long way towards bulling both stocks and bonds. But nothing can obscure the fact that investment grade stocks (i.e., the Dow) are selling at levels that have characterized many market tops.

All I can tell readers is what I see and what I, personally, have done. What I see is outlined in each and every Letter. What I've done is stayed very liquid, holding a limited amount of closed-end funds and a position of about 7% in gold. The rest is in T-bills,

money market funds and more recently in global money market funds. Sad (but expected), the dollar has taken a dive over the past few weeks. Actually, in view of the huge interest spread in favor of the other hard currencies, it's amazing that the dollar hasn't fallen further than it has.

NOTES & QUOTES: Economists may disagree about a lot of things, but almost all economists agree that the US is now de-leveraging after the wild debt-building binge of the 1980s. How long could this process take? Ed Hyman (*ISI Inc.*) in his latest mailing makes these comments: "Farm debt as a percent of farm income exploded during the 1970s. But with the onset of tight monetary policy, the farm sector began to de-leverage in 1981. This de-leveraging continued for 9 years! Farm debt growth was negative for six years." Then Ed adds, "If the farm sector can do it, why not the consumer and business?" Russell comment: Consumers and business can de-leverage and re-liquefy, and they're doing it. But I think the process could take another five years or more.

* *

Good folk, wrong job: George Bush really never should have been President. His real interest is foreign affairs, and he only addresses domestic problems when there's a crisis. George should have been somebody's Secretary of State. New York's Mayor Dinkins has the same problem. Dinkins is a nice guy, loves to wear his tuxedo, and is a rabid tennis enthusiast. Dinkins never should have been mayor of the US' most populous city. Rather, he should have been the city's "official greeter," much like Grover Whelan was during the 1930s. Last week both men (under pressure) cancelled overseas trips.

Pull Bush out of stupor

WASHINGTON — Instead of providing the modest underpinning for consumer purchasing power that would come from extended unemployment insurance, President Bush ... ough up- ix cut, and

COLUMN RIGHT/
PATRICK J. BUCHANAN

Yes, George, We Can Go Home Again

■ Americans want leadership on their own problems; let the world take care of itself.

the horse, wa in the witty eco- ly televis- 6. intertain bout the

Galbraith argued that to prevent the present recession from slipping into a full-fledged depression Washington ... means Bush, Congress and the Fed must: ... • Low ... timism. ... string." ... • Al ... tional ... comm ... this, ... com ... not ... high ... can ... No ... Mi ... Ui ...

Budding Issue

Bush's Schedule Shows He Spends Little Time On Domestic Concerns

White House Frets His Focus On Foreign Policy May Be Liability in 1992 Election

President's Next Stop: Madrid

The perception is rising that Bush can be beaten in the next election. The American public has become increasingly annoyed with Bush's almost total preoccupation with foreign affairs. Furthermore, Bush's incessant and kookie boasting about his Gulf war "victory" has become almost an embarrassment. And the ever-wavering Mario ("Hamlet") Cuomo is closing in on a decision to run. If the recession continues, I would say that Mario will be the Democratic candidate.

Furthermore, Mario is starting to warm up to the attack. This from a recent Cuomo speech: "Anything Bush does now is an admission of failure. If he does an economic package, and I'm convinced he will, soon, it's an admission that his budget deal was a phoney. If he goes back to get Saddam, it's an admission that he didn't finish the job the first time. If he goes negative, Willie Horton, quotas, Anita Hill, it's a sign of surrender. It means he knows he can't do it on the economy, so he has to play dirty. The people won't let him get away with it . . . There's a disgust, an incipient rage out there, a fear that we're not just losing economic strength but the spirit of the country. The whole thing stinks." Russell comment: Mario's an orator, but he won't be talking about NY state's economy.

* *

This year's World Series was incredible; many think it was the greatest ever. Here's why: (1) It was the first World Series to have four games decided on the last pitch (previous, two pitches). (2) It was the first to have five games decided in a team's last turn at bat (previous, four). (3) It was the first to have three extra-inning games (previous, two). (4) It was the first to have a seventh game go scoreless through nine innings. (5) It was the first to have two last place teams become first. (6) It was the second to have a 1-0 seventh game. (7) It was the third to have five 1-0 games. (8) It was the third to have an extra-inning seventh game. Wow!

* *

In an effort to somehow shrink state deficits, private and state-sponsored gambling has become pervasive in America. The latest concept -- several big time Las Vegas operators are now preparing to launch riverboat gambling in Mississippi, Illinois and Louisiana. Thirty-three states now allow gambling in the form of lotteries. A few weeks ago, the total for Florida's lottery pushed to $94 million, and this set off a frenzy of buying in which tickets were selling at the rate of two million an hour (although the odds were one-in-14 million of winning). In my opinion, this same gambling mania has been spreading out into the stock market.

* *

Speaking of debt (and I often do) the federal debt continues to climb. Over the last 12 months the total federal debt (this is the real deficit) increased by $424 billion -- or $1.16 billion for every single day of the year. I've said it before, and I'll repeat it -- with America spending its future today, one thing is sure -- the American standard of living is headed down and down. You cannot mortgage your future and then look for a better future. Something has to give. What will give is your credit worthiness, your honor, your prestige, your economy and your currency.

Federal Budget Deficit Soars To $268.7 Billion

The Spending Imbalances Are Expected To Continue At Least Through Most Of Decade

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — The federal budget deficit soared to a record $268.7 billion in the fiscal year ending Sept. 30, the government said yesterday. It was the 22nd straight year of spending imbalances, which are projected to ... billion last month and $1.32 trillion for the year, up 6.7 percent from fiscal 1990.

September's $6.8 billion deficit compared to $20.8 billion surplus a year earlier.

The Resolution Trust Corp., the agency charged with bailing out the savings and loan industry, cost ...

* *

Currently, I'm getting letters from subscribers all over the nation, letters complaining about hardships, letters complaining about taxes, letters complaining about what's happening to this country. One subscriber sent me a three-part series from the *Ann Arbor News* (Michigan) entitled "Rude Awakening, the Fading American Dream." The article provides some shocking statistics. In 1967 mortgage payments as a percentage of family income for first time buyers was 21%. Today it's 34%. In 1979 private college expenses as a percentage of family income was 21% (9% for public colleges). The latest figures show it's now 25% (11% for a public college). In 1967 car expenses as a percentage of family income was 21%. In 1989 it was 25%. So home and car expenses today as a percentage of family income is around 58%. No wonder car and home sales are lousy. The average family can't afford them. As for private college -- forget it, unless you can get a scholarship.

* *

What worries and frustrates Americans today? *Parade* magazine took a poll, and here's what they came up with and in this order: (1) The faltering economy. (2) Government misconduct and mismanagement. (3) The medical care crisis. (4) Crime. (5) The abortion uproar. (6) The tax burden. (7) Government waste. (8) The crumbling infrastructure. (9) The learning decline and rotten schools. (10) Free trade policies. Russell comment: And I'll add one that I worry about -- America simply sliding down hill, sinking into a maelstrom of debt, losing out in both power and prestige.

* *

Speaking of what frustrates Americans, an item that I guess comes under #2 above is that Congress passes laws but those laws don't apply to Congress. (This really makes me angry. Why should these guys make laws that you and I have to live with but that our law-makers can avoid?) A few of the laws that don't apply to Congress are (1) Social Security, (2) National Labor Relations Act of 1935, (3) Minimum Wage Act of 1938, (4) Equal Pay Act of 1963, (5) Civil Rights Act of 1966, (6) Freedom of Information Act of 1967, (7) Age Discrimination Act of 1967, (8) Occupational Safety and Health Act of 1970, (9) Rehabilitation Act of 1973, (10) Privacy

Act of 1974, (11) Ethics in Government Act of 1978, (12) Conflict of Interest Laws, and so forth.

A few weeks ago George Bush attacked Congress for exempting itself from many laws that ordinary citizens have to obey. Replied Wendell Ford, Chairman of the Rules Committee, "What the President would have found if he read the statutes is that the executive office is exempt from most of the laws he listed as not applying to Congress."

* *

The decline in interest rates (I've talked about this before) isn't working the way it used to. This time it's hurting millions of Americans in that it's cutting drastically into their savings income (15% of family income now comes from interest on savings). This, on top of higher taxes and job lay-offs, is accentuating the pain of the recession. In October $125 billion in CDs ran off. Investors had to settle for much lower rates for new CDs or for an average of 3% return or less inequities. No fun there.

THE ECONOMY

Decline in Interest Rates Could Backfire on Bush

Many people would not benefit from more easing, since returns on CDs, savings accounts and Treasury bills are already low.

By OSWALD JOHNSTON
TIMES STAFF WRITER

WASHINGTON—President Bush may be pressuring the Federal Reserve Board to cut interest rates further, but—surprising as it may seem—not everyone agrees that lowering rates is a good thing.

won't hurt the middle class—unless you define middle class as people with a $200,000 income. This is an issue for retirees with assets," Wyss contends, "and for the rich."

The economic impact is easy to see. Affluent retirees generally are creditors, not debtors. Many already have paid off their mortgages. Their credit-card debt

* *

The Sindlinger survey watches an item it calls "gift money," which is an individual's total combined interest and dividends. This is money consumers tap "for extraordinary spending -- to take a cruise, buy a fur coat or a second home." Gift money has been rising steadily, according to Sindlinger, for the past 40 years. It began its first ever yearly decline six months ago. At its peak last year there was $815 billion in gift money, $31 billion above 1989. Sindlinger says there will be a $30 billion drop this year.

* *

I can't believe that I've written a thousand and eighty-two *Dow Theory Letters*. The fellow who gave me my big start was Bob Bleiberg, former editor and then publisher of *Barron's*. Back in 1958 Bob took a chance on me (I was an unknown, and technical analysis was a dirty word) when he published my first *Barron's* article, entitled "Dow Theory Revisited." The article created a minor sensation (I predicted a big new bull market), and a torrent of subscriptions put me in business. I wrote about 25 articles for *Barron's* after that.

Two weeks ago Bob Bleiberg retired from Dow Jones. He was a heck of an editor and writer. Bob told it as he saw it and never compromised with anyone. His editorials over the years serve as a textbook for what's right and what's wrong with this country.

* *

The future of America lies with its youth, but right now the money and profits may lie with the oldies. Percentage-wise, the fastest growing group is the over-85s. And they spend money too. Here are America's two largest selling magazines: *Modern Maturity* with a circulation of 22 million and *NRTA/AARP (Amer. Assoc. of Retired Persons) Bulletin* with another 22 million.

* *

My mother died in 1990 at the ripe age of 92. It has always bothered me that when one of our parents die, the chances are we have little or no record of their lives, what they did, who they were, the battles they fought, and the things they experienced. For instance, I know almost nothing about my grandparents and absolutely nothing about my great-grand-parents. And I wish I did know something about them; in fact I wish I knew a lot about them. It has always seemed a shame to me that my grandfather or even my father could live out their lives -- and ultimately my kids and their kids will know almost nothing about them.

So about two years before my mother died I made a few audio tapes of my mom together with one video tape. My daughter, Daria, who was an associate producer with PBS, helped me with the video tape, and believe me, I'm glad we made those tapes (I gave one to each of my kids). Now my daughter has set up a business called Video Bio, and for a modest fee she will make tapes of the people who are important in your life. I think it's a great idea, and if you're in San Diego and want to do it, Video Bio's number is (619) 236-VBIO.

* *

I grew up during the so-called "Golden Era" of the comics. It was Dick Tracy, Terry and the Pirates, Wash Tubbs, Prince Valiant, Gasoline Alley, Katzenjammer Kids, Barney Google, the Big Little Books, and so forth. One strip that has lasted through the years is one that I still read -- it's Blondie. I love this strip, and I find it good for a laugh four out of five times. A recent sample is below. Dagwood is lazy, and Mr. Dithers is a tough and frustrated boss (frustrated because he has to deal with Dagwood). Still, Dagwood has his troubles too.

BLONDIE

YOU DID AN EXCELLENT JOB ON THE LEWIS CONTRACT, MY BOY!
THANKS, BOSS
I CAN'T DECIDE HOW TO REWARD YOU
HOW ABOUT A RAISE, OR A PAID VACATION?
© 1991 King Features Syndicate, Inc. World Rights Reserved
NAH, THOSE ARE TOO SIMPLE
A VICE-PRESIDENCY? STOCK OPTIONS?
GO BACK TO WORK... IF I EVER THINK OF SOMETHING, I'LL CALL YOU
YOUNG DRAKE
10-28

* *

Was the war in the Gulf worth it? Russell opinion: It might have been if we had won. The *International Herald Tribune* quotes Saddam last week as saying, "It is a great honor to have enemies like those dirty, immoral human beings, led by their worst example, the United States of America." Saddam is continuing to decorate his top officers for their part in the "mother of all wars."

Old Saddam is back in Iraq, tough talk and all, say many

NEW YORK TIMES NEWS SERVICE

BAGHDAD, Iraq — After pinning several pounds of medals and hanging multiple sashes and honorary swords from the "mother of battles" on his top lieutenants and political cronies last week, President Saddam Hussein told a nationwide television audience that Iraq was like the woman who chose to be killed rather than submit to rape.

Iraq's honor, Saddam said, is more important than surrendering

political influence to plead his case that Western nations are trampling on Arab pride and dignity in Iraq.

With this strategy, Saddam is betting that he can feed his economically devastated nation well into next year, or at least long enough to get out from under United Nations sanctions, which have separated the Iraqi leader from Iraq's enormous wealth of crude oil.

This certainly will not bring an end to Saddam's problems, but ...

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Sign of the Times: If there was one "retail store of the '80s," it was New York's fabulous Bergdorf Goodman. But Bergdorf has now fallen to earth; dragged down by their men's store where sales have slumped. Bergdorf's profits for the year ending Aug. 31 dropped 82%. And the talk is that Bergdorf will be trading down, mixing lower priced items with the $1000 suits and $3000 dresses.

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John Kenneth Galbraith (the well-known Keynesian economist) has a few words to offer on the current situation. "The time has come to end the nonsense. The present recession is not an

autonomous, self-correcting economic drama. It is the wholly predictable response to the speculative extravagances and insanities, and specific government policies, of the 1980s. As the Great, and enduring, Depression of the 1930s was the response to the speculation of the previous decade, which ended in the crash of '29, so, though perhaps less dramatically now, we are paying for the mergers-and-acquisitions mania that left roughly one-third of our large corporations with a heavy, sometimes crucifying burden of debt. We are experiencing the consequences of an extreme and often mindless speculation in urban real estate. And of the junk-bond miasma. And of legislative and regulative measures that, in effect, put government funds, guaranteed bank and savings-and-loan deposits, at the disposal of some of the most fiscally extravagant and felonious entrepreneurs since John Law and the South Sea Bubble."

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The Soviet situation continues to be precarious. So bad, in fact, that some currency traders are afraid of holding German marks, since Germany borders on the Soviets, and Germany is the nation with the greatest investment in the Soviets. One problem that is not drawing much attention is the dangerous situation in Soviet nuclear plants. This includes Chernobyl and the Ukraine's 14 other nuclear plants. The agencies that run these plants have neither the expertise nor the money to run the plants properly, and this worries Western European experts. According to *Glasnost News and Review*, 50% of the pregnancies in Central Asia end in miscarriages. All of the the 5,000 children in the Ukrainian city of Narodichi have been exposed to radioactive iodine 131. In the Bonbass coal-mining region "leukemia has reached epidemic proportions among children." In 1991 the Soviet's GNP is expected to drop 13%. In the first eight months of this year, imports have dropped 45%. Inflation is running wild in the Soviets with the prices of most commodities traded on the nation's exchanges rising 2% to 3% every ten days in September. One of the major worries now is the possibility of a new right-wing coup attempt this winter . . . Prostitution is running wild in Moscow. In a recent poll published in newspapers, one-third of Moscow's teen-age girls said they wouldn't mind sleeping with a man for money, preferably for foreign currency. When asked what job they would like, 75% said "hard-currency prostitute."

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French wine is too expensive for most Americans and the sale of wine in general is sliding in the US. Americans drink 35 gallons of beer per head each year and only 2.5 gallons of wine.

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Publications: One of the wonders of the publishing world is M. Scott Peck's book, "The Road Less Traveled." This book has been on the *NY Times* Paperback Best Sellers list for an incredible 417 consecutive weeks. I recommended this book when it was first published; I still think it's a fine book, well worth reading.

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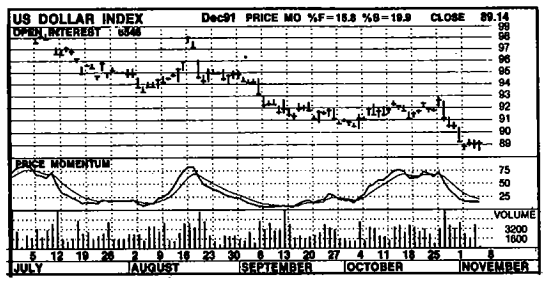
As veteran readers know, I've long followed the career of Warren Buffett, the fabled investor -- he heads Berkshire Hathaway and is temporary CEO of Salomon Bros. (Berkshire has a $700 million investment in Salomon). Buffett possesses a truly amazing record having run an original small investment into a multi-billion dollar holding company. Buffett also leads an unusual life. He's married, but he's lived for 13 years with another woman. But when Buffett travels (which is often), he travels with his wife. I can understand how he made his billions, but live with one woman and travel with his wife, hey, how does he do that?

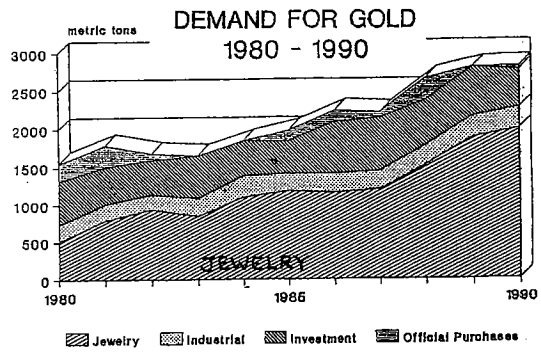
GOLD, CURRENCIES: Japan's money supply growth is plunging and business in Japan is slowing. Consequently, imports to Japan are declining, but their exports are still rising. Japan's merchandise trade surplus in September was a massive $10.95 billion. With this kind of surplus, the pressure is on the upside for the yen against the dollar (the US' trade deficit with Japan runs a huge $50 billion a year).

Since August the Dollar Index has dropped a whopping 10% as this chart from *Investor's Business Daily* shows. The only thing holding the dollar up at this point is purchasing power parity (plus the fact that it is very oversold). The dollar is cheap, and foreign tourists in the US think they're in "candy land."



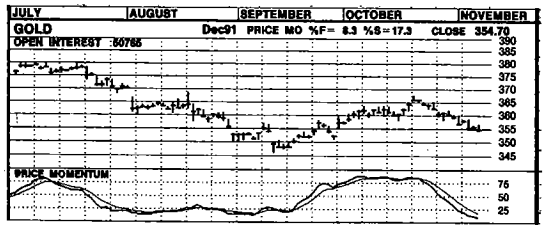
With gold still around 358, many mines in S. Africa have closed down. At the same time, Soviet gold production is dropping off, due to the usual mismanagement. Furthermore, it now turns out that the Communist elite have stolen, hidden or run off with a large part of of the Soviet gold hoard.

Demand for gold jewelry has been booming as this chart demonstrates. In fact gold for **jewelry** has replaced central bank gold demand as the primary consumer of the yellow metal.



Interestingly, the prices of gold jewelry (and Rolex watches) and fine gem prices have been strong throughout this recession, even while the price level of art has fallen dramatically. My guess is that large investors are buying top-grade jewelry as a hedge against a dollar that continues to decline over the years. I watch the jewelry auction prices at Sotheby's and Christie's and I can tell you that big money (both here and abroad) continues to soak up fine gems and jewelry as fast as it appears on the world market.

As the price momentum lines on this *Investor's Business Daily* chart shows, gold is fast becoming oversold. So is the dollar, which has suffered a huge slide over the past four months.



LATE NOTES: Rotten news continues to surface. Retail sales are sluggish, car sales are poor, housing is in the dumps, the US trade balance is deteriorating, and so is consumers' confidence. Last week the M-2 money supply was down $6 billion. I've yet to see an economic expansion with slumping M-2. Amazing, on the latest figures, 91% of total Dow earnings are being paid out in dividends. Prognosis: more Dow dividend cuts coming up.

Despite all this my **PTI** keeps heading north, and as long as the PTI is climbing, this index is telling us that the underlying pressure in the market is to the UPSIDE. Late last week we saw new highs in the following: the NYSE Transportation, Utility, and Finance Indices, the S&P Transports, Utilities and MidCap 400, and in the NASDAQ Composite and the Wilshire 5000.

NEXT MAILING: Nov. 27